

CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 09/28/04

AGENDA ITEM 7

WORK SESSION ITEM

TO: Mayor and City Council

FROM: City Manager

SUBJECT: Proposition 1A: Protection of Local Government Revenues

RECOMMENDATION:

It is recommended that the City Council adopt the attached Resolution in support of Proposition 1A.

DISCUSSION:

This item appears on the agenda at the request of Councilmember Bill Quirk

As the Council is aware, for over a decade, the State has relied on local revenues to support state obligations. Initially accomplished through the shift of property tax revenue from the local level to Sacramento, in the intervening years the State has appropriated local sale tax and vehicle license fee dollars as well. Locally, both the City and the Hayward Area Recreation and Park District have been severely impacted, HARD much more so than the City. For reference, over a ten-year period, the State has seized more than \$40 million in property tax revenues from the City; \$60 million from HARD, and \$1.9 billion from the County.

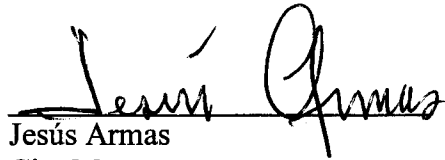
The adverse impacts to local governments reached an intolerable stage, resulting in the formation of a coalition of cities, counties and special districts to stop and reverse the state practice of seizing local dollars. This coalition was successful in securing sufficient signatures to qualify what is now Proposition 65 on the November ballot.

Subsequently, the Governor indicated that he would oppose Proposition 65 because of its impact on the State budget, but would be willing to consider an alternate proposition. Proposition 1A is the result of negotiations between the Governor, legislative leaders and local government representatives.

Proposition 1A begins to safeguard local revenue sources so they remain available at the local level. Nonetheless, under certain conditions, the State would still be able to take property tax revenues. Unlike the current practice which does not constrain the State in any way, Proposition 1A would limit the State's ability to take local property tax revenue to twice in any

ten-year period. Further, if the State takes away local revenues, it would be in the form of a loan, and must be repaid, with interest, to local governments. Finally, so long as the loan remains outstanding, the State is precluded from taking more local revenues.

Attached for the Council's consideration is a resolution in support of Proposition 1A. Proposition 1A is supported by the aforementioned local government coalition and a variety of other interested parties. Attached for your information is material obtained from the Voters Information Guide published by the Secretary of State.



Jesús Armas
City Manager

Attachment

PROPOSITION

1A

PROTECTION OF LOCAL GOVERNMENT REVENUES

OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

Protection of Local Government Revenues

- Protects local funding for public safety, health, libraries, parks, and other locally delivered services.
- Prohibits the State from reducing local governments' property tax proceeds.
- Allows the provisions to be suspended only if the Governor declares a fiscal necessity and two-thirds of the Legislature approve the suspension. Suspended funds must be repaid within three years.
- Also requires local sales tax revenues to remain with local government and be spent for local purposes.
- Requires the State to fund legislative mandates on local governments or suspend their operation.

Summary of Legislative Analyst's Estimate of Net State and Local Government

Fiscal Impact:

- Significant changes to state authority over local finances. Higher local government revenues than otherwise would have been the case, possibly in the billions of dollars annually over time. Any such local revenue impacts would result in decreased resources to the state of similar amounts.

Final Votes Cast by the Legislature on SCA 4 (Proposition 1A)

Assembly:	Ayes 64	Noes 13
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Senate:	Ayes 34	Noes 5
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ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

Local Government Funding

California cities, counties, and special districts provide services such as fire and police protection, water, libraries, and parks and recreation programs. Local governments pay for these programs and services with money from local taxes, fees, and user charges; state and federal aid; and other sources. Three taxes play a major role in local finance because they raise significant sums of general-purpose revenues that local governments may use to pay for a variety of programs and services. These three taxes are the property tax, the uniform local sales tax, and the vehicle license fee (VLF). Many local governments also impose optional local sales taxes and use these revenues to support specific programs, such as transportation. Figure 1 provides information on these major revenue sources.

State Authority Over Local Finance

The State Constitution and existing statutes give the Legislature authority over the taxes described in Figure 1. For example, the Legislature has some authority to change tax rates; items subject to taxation; and the distribution of tax revenues among local governments, schools, and community college districts. The state has used this authority for many purposes, including increasing funding for local services, reducing state costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance. Figure 2 describes some of these past actions the Legislature has taken.

Requirement to Reimburse for State Mandates

The State Constitution generally requires the state to reimburse local governments, schools, and community college districts when the state

ANALYSIS BY THE LEGISLATIVE ANALYST

FIGURE 1

LOCAL GOVERNMENT TAXES

Property Tax

- Local governments receive general-purpose revenues from a 1 percent property tax levied on real property.
- During the 2003–04 fiscal year, local governments received approximately \$15 billion in property tax revenues. (An additional \$16 billion in property taxes went to schools and community colleges.)
- There is wide variation in the share of property taxes received by individual local governments. This variation largely reflects differences among local agency property tax rates during the mid-1970s, the period on which the state's property tax allocation laws are based.

Vehicle License Fee (VLF)

- The VLF is a tax levied annually on the value of vehicles registered in the state.
- For about a half century, the VLF rate was 2 percent of vehicle value. In 1999, the Legislature began reducing the rate charged to vehicle owners, with the state "backfilling" the resulting city and county revenue losses.
- During 2003–04, the VLF (set at a rate of 0.65 percent of vehicle value) and the VLF backfill would have provided about \$5.9 billion to cities and counties. The state, however, deferred payment of part of the backfill to 2006.
- Under current law, most VLF revenues are allocated to counties for health and social services programs. Some VLF revenues are allocated to cities for general purposes.

Local Sales Tax (Uniform)

- Cities and counties receive revenues from a uniform local sales tax levied on the purchase price of most goods—such as clothing, automobiles, and restaurant meals. This tax is sometimes called the "Bradley-Burns" sales tax.
- During 2003–04, this tax was levied at a rate of 1.25 percent and generated about \$5.9 billion.
- Under current law, 80 percent of sales tax revenues is distributed to local governments based on where sales occur—to a city if the sale occurs within its boundaries, or to a county if the sale occurs in an unincorporated area. The remaining 20 percent of local sales tax revenues is allocated to counties for transportation purposes.
- Beginning in 2004–05, local governments will receive additional property taxes to replace some local sales tax revenues that are pledged to pay debt service on state deficit-related bonds, approved by voters in March 2004.

Local Sales Tax (Optional)

- Cities and counties can impose certain additional sales taxes for local purposes.
- During 2003–04, 40 jurisdictions levied these optional sales taxes and generated about \$3.1 billion.
- Most revenues are used for transportation purposes.

"mandates" a new local program or higher level of service. For example, the state requires local agencies to post agendas for their hearings. As a mandate, the state must pay local governments, schools, and community college districts for their costs to post these agendas. Because of the state's budget difficulties, the state has not provided in recent years reimbursements for many mandated costs. Currently, the state owes these local agencies about \$2 billion for the prior-year costs of state-mandated programs. In other cases, the state has "suspended" state mandates, eliminating both local government responsibility for complying with the mandate and the need for state reimbursements.

PROPOSAL

Limitations on Legislature's Authority to Change Local Revenues

This measure amends the State Constitution to significantly reduce the state's authority over

FIGURE 2

MAJOR STATE ACTIONS AFFECTING LOCAL FINANCE

Increasing Funding for Local Services. In 1979, the state shifted an ongoing share of the property tax from schools and community colleges to local governments (cities, counties, and special districts). This shift limited local government program reductions after the revenue losses resulting from the passage of Proposition 13, but increased state costs to backfill schools' and community colleges' property tax losses.

Reducing State Costs. In 1992 and 1993, the state shifted an ongoing share of property taxes from local governments to schools and community colleges. In 2004, the state enacted a similar two-year shift of property taxes (\$1.3 billion annually) from local governments to schools and community colleges. These shifts had the effect of reducing local government resources and reducing state costs. The state also reduced its costs by deferring payments to local governments for state mandate reimbursements (most notably in 2002, 2003, and 2004) and for a portion of the vehicle license fee (VLF) "backfill" (2003), described below.

Reducing Taxation. Beginning in 1999, the state reduced the VLF rate to provide tax relief. The state backfilled the resulting city and county revenue losses.

Addressing Concerns Regarding Funding for Specific Local Governments. In the past, the state has at various times adjusted the annual allocation of property taxes and VLF revenues to assist cities that received very low shares of the local property tax.

Restructuring Local Finance. In 2004, the state replaced city and county VLF backfill revenues with property taxes shifted from schools and community colleges.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

major local government revenue sources. Under the measure the state could not:

- **Reduce Local Sales Tax Rates or Alter the Method of Allocation.** The measure prohibits the state from: reducing any local sales tax rate, limiting existing local government authority to levy a sales tax rate, or changing the allocation of local sales tax revenues. For example, the state could not reduce a city's uniform or optional sales tax rate, or enact laws that shift sales taxes from a city to the county in which it is located.
- **Shift Property Taxes From Local Governments to Schools or Community Colleges.** The measure generally prohibits the state from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year under the laws in effect as of November 3, 2004. The measure also specifies that any change in how property tax revenues are shared among local governments within a county must be approved by two-thirds of both houses of the Legislature (instead of by majority votes). For example, state actions that shifted a share of property tax revenues from one local special district to another, or from a city to the county, would require approval by two-thirds of both houses of the Legislature. Finally, the measure prohibits the state from reducing the property tax revenues provided to cities and counties as replacement for the local sales tax revenues redirected to the state and pledged to pay debt service on state deficit-related bonds approved by voters in March 2004.
- **Decrease VLF Revenues Without Providing Replacement Funding.** If the state reduces the VLF rate below its current level, the measure requires the state to provide local governments with equal replacement revenues. The measure also requires the state to allocate VLF revenues to county health and social services programs and local governments.

The measure provides two significant exceptions to the above restrictions regarding sales and property taxes. First, beginning in 2008–09, the state may shift to schools and community colleges a limited amount of local government property tax revenues if: the Governor proclaims that the shift is needed due to a severe state financial hardship, the Legislature approves the shift with a two-thirds vote of both houses, and certain other conditions are met. The state must repay local governments for their property tax losses, with interest, within three years. Second, the measure allows the state

to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

State Mandates

The measure amends the State Constitution to require the state to suspend certain state laws creating mandates in any year that the state does not fully reimburse local governments for their costs to comply with the mandates. Specifically, beginning July 1, 2005, the measure requires the state to either fully fund each mandate affecting cities, counties, and special districts or suspend the mandate's requirements for the fiscal year. This provision does not apply to mandates relating to schools or community colleges, or to those mandates relating to employee rights.

The measure also appears to expand the circumstances under which the state would be responsible for reimbursing cities, counties, and special districts for carrying out new state requirements. Specifically, the measure defines as a mandate state actions that transfer to local governments financial responsibility for a required program for which the state previously had complete or partial financial responsibility. Under current law, some such transfers of financial responsibilities may not be considered a state mandate.

Related Provisions in Proposition 65

Proposition 65 on this ballot contains similar provisions affecting local government finance and mandates. (The nearby box provides information on the major similarities and differences between these measures.) Proposition 1A specifically states that if it and Proposition 65 are approved and Proposition 1A receives more yes votes, none of the provisions of Proposition 65 will go into effect.

FISCAL EFFECTS

Proposition 1A would reduce state authority over local finances. Over time, it could have significant fiscal impacts on state and local governments, as described below.

Long-Term Effect on Local and State Finance

Higher and More Stable Local Government Revenues. Given the number and magnitude of past state actions affecting local taxes, this measure's restrictions on state authority to enact such measures in the future would have potentially major fiscal effects on local governments. For example, the state could not enact measures that permanently shift property taxes from local governments to schools in order to reduce state costs for education programs. In these cases, this measure

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

PROPOSITIONS 1A AND 65

Propositions 1A and 65 both amend the State Constitution to achieve three general objectives regarding state and local government finance. The similarities and differences between the two measures are highlighted below.

Limits State Authority to Reduce Major Local Tax Revenues

Effect on 2004–05 State Budget.

- *Proposition 65's* restrictions apply to state actions taken over the last year, and thus would prevent a major component of the 2004–05 budget plan (a \$1.3 billion property tax shift in 2004–05 and again in 2005–06) from taking effect unless approved by the state's voters at the subsequent statewide election.
- *Proposition 1A's* restrictions apply to future state actions only, and would allow the planned \$1.3 billion property tax shift to occur in both years.

Effect on Future State Budgets.

- *Proposition 65* allows the state to modify major local tax revenues for the fiscal benefit of the state, but only with the approval of the state's voters.
- *Proposition 1A* prohibits such state changes, except for limited, short-term shifting of local property taxes. The state must repay local governments for these property tax losses within three years.

Reduces State Authority to Reallocate Tax Revenues Among Local Governments

Effect on Revenue Allocation.

- *Proposition 65* generally requires state voter approval before the state can reduce any individual local government's revenues from the property tax, uniform local sales tax, or vehicle license fee (VLF).
- *Proposition 1A* prohibits the state from reducing any local government's revenues from local sales taxes, but maintains some state authority to alter the allocation of property tax revenues, VLF revenues, and other taxes. Proposition 1A does not include a state voter approval requirement.

Local Governments Affected.

- *Proposition 65's* restrictions apply to cities, counties, special districts, and redevelopment agencies.
- *Proposition 1A's* restrictions do not apply to redevelopment agencies.

Restricts State Authority to Impose Mandates on Local Governments Without Reimbursement

- *Proposition 65* authorizes local governments, schools, and community college districts to decide whether or not to comply with a state requirement if the state does not fully reimburse local costs.
- *Proposition 1A's* mandate provisions do not apply to schools and community colleges. If the state does not fund a mandate in any year, the state must eliminate local government's duty to implement it for that same time period.

would result in local government revenues being more stable—and higher—than otherwise would be the case. The magnitude of increased local revenues is unknown and would depend on future actions by the state. Given past actions by the state, however, this increase in local government revenues could be in the billions of dollars annually. These increased local revenues could result in higher spending on local programs or decreased local fees or taxes.

Lower Resources for State Programs. In general, the measure's effect on state finances would be the *opposite* of its effect on local finances. That is, this measure could result in decreased resources being available for state programs than otherwise would be the case. This reduction, in turn, would affect state spending and/or taxes. For example, because the state could not use local government property taxes permanently as part of the state's budget solution, the Legislature would need to take *alternative* actions to resolve the state's budget difficulties—such as increasing state taxes or decreasing spending on other state programs. As with the local impact, the total fiscal effect also could be in the billions of dollars annually.

Less Change to the Revenue of Individual Local Governments. Proposition 1A restricts the state's authority to reallocate local tax revenues to address concerns regarding funding for specific local governments or to restructure local government finance. For example, the state could not enact measures that changed how local sales tax revenues are allocated to cities and counties. In addition, measures that reallocated property taxes among local governments in a county would require approval by two-thirds of the Members of each house of the Legislature (rather than majority votes). As a result, this measure would result in fewer changes to local government revenues than otherwise would have been the case.

Effect on Local Programs and State Reimbursements

Because the measure appears to expand the circumstances under which the state is required to reimburse local agencies, the measure may increase future state costs or alter future state actions regarding local or jointly funded state-local programs. While it is not possible to determine the cost to reimburse local agencies for potential future state actions, our review of state measures enacted in the past suggests that, over time, increased state reimbursement costs may exceed a hundred million dollars annually.

ARGUMENT in Favor of Proposition 1A

PROPOSITION 1A—A HISTORIC AGREEMENT TO PROTECT LOCAL TAXPAYERS AND VITAL LOCAL GOVERNMENT SERVICES.

Proposition 1A is a historic bipartisan agreement among local governments, public safety leaders, the State Legislature, Republican Governor Arnold Schwarzenegger, and is authored by Democratic State Senator Tom Torlakson.

Proposition 1A prevents the State from taking and using funding that local governments need to provide services like fire and paramedic response, law enforcement, health care, parks, and libraries.

These individuals and groups urge a YES vote:

- Governor Schwarzenegger
- State Controller Steve Westly
- California Professional Firefighters
- California Fire Chiefs Association
- California Police Chiefs Association
- California State Sheriffs' Association
- California Association of Public Hospitals and Health Systems
- League of California Cities
- California Special Districts Association
- California State Association of Counties

PROPOSITION 1A IS NEEDED TO STOP THE STATE FROM TAKING LOCAL GOVERNMENT FUNDING.

For more than a dozen years, the State has been taking local tax dollars that local governments use to provide essential services—more than \$40 billion in the last 12 years. Even in years with state budget surpluses, the State has taken billions of local tax dollars.

These State raids result in fewer firefighters, fewer law enforcement officers, longer waits in emergency rooms—or higher local taxes and fees.

PROPOSITION 1A PROTECTS PUBLIC SAFETY, EMERGENCY HEALTH CARE, AND OTHER LOCAL SERVICES.

Local governments spend a vast majority of their budgets providing critical services, including:

- Fire protection
- Paramedic response
- Law enforcement
- Emergency medical
- Health care
- Parks and libraries

Cities and counties also revitalize downtowns and create jobs and affordable housing using redevelopment agency funding. Redevelopment agency tax increment revenues are already protected by the State Constitution and do not need to be further protected by Proposition 1A.

PROPOSITION 1A PROTECTS LOCAL TAXPAYERS AND WON'T RAISE TAXES.

Proposition 1A will *not* raise taxes. It simply ensures that *existing* local tax dollars continue to be dedicated to local services. It also helps *ensure local governments aren't forced to raise taxes or fees to make up for revenue raided by the State.*

PROPOSITION 1A PROVIDES FLEXIBILITY IN A STATE BUDGET EMERGENCY—AND WON'T TAKE FUNDING FROM SCHOOLS OR OTHER STATE PROGRAMS.

Proposition 1A protects only *existing* levels of local funding. It does not reduce funding for schools or other state programs. And, 1A was carefully written to allow flexibility. It allows the State to *borrow* local government revenues—only in the event of a fiscal emergency—if funds are needed to support schools or other state programs.

PROPOSITION 1A IS A BETTER APPROACH THAT REPLACES THE NEED FOR PROPOSITION 65.

Proposition 65 was put on the ballot earlier this year before this historic agreement was reached. Proposition 1A is a better, more flexible approach to protect local services and tax dollars. That's why ALL of the official proponents of 65 are now ENDORSING PROPOSITION 1A AND OPPOSING PROPOSITION 65.

Join Governor Schwarzenegger, Senator Torlakson, firefighters, police officers, sheriffs, paramedics, health care leaders, taxpayers, business and labor leaders.

PROTECT LOCAL TAXPAYERS AND PUBLIC SAFETY. Vote YES on PROPOSITION 1A. Vote NO on PROPOSITION 65.

GOVERNOR ARNOLD SCHWARZENEGGER
CHIEF MICHAEL WARREN, *President*
California Fire Chiefs Association
SHERIFF ROBERT T. DOYLE, *President*
California State Sheriffs' Association

REBUTTAL to Argument in Favor of Proposition 1A

Proposition 1A was cooked up at the last minute as part of a bad budget deal.

There were no public hearings.

Proposition 1A protects local governments, but it hurts education by allowing the State to raid your property taxes that fund your local schools. And it puts that into the State Constitution!

Proposition 1A prevents the Legislature from lowering taxes by locking in the local sales tax rate. That goes into the State Constitution too!

Proposition 1A jeopardizes critical programs. As California's fiscal challenges continue, the State budget

ax will fall even harder on funding for K-12 education, higher education, children's health care, programs for seniors, and public safety.

Proposition 1A gives local politicians a blank check without any scrutiny over how the money is spent.

We can do better. We deserve better.

Vote NO on Proposition 1A.

CAROLE MIGDEN, *Chairwoman*
State Board of Equalization

PROTECTION OF LOCAL GOVERNMENT REVENUES

PROP
1A

ARGUMENT Against Proposition 1A

We should protect local taxpayers, not irresponsible spending by local governments. Vote NO on Proposition 1A.

As Chairwoman of the State Board of Equalization, I know that too many branches of government waste too much money.

Proposition 1A gives local governments a spending guarantee without any fiscal accountability or oversight. It's a blank check for spending and turns a blind eye to waste.

Did you know that the City of Stockton is emptying its cash reserves to build a downtown arena, but at the same time they're trying to raise taxes to pay for police officers and firefighters? They've got their priorities backwards.

Did you know that the City of Los Angeles raised their water rates, but at the same time they're being audited for wasting millions on unnecessary public relations contracts?

California has a responsibility to help and support local governments. We are all in this together. But NO one should be exempt from fiscal oversight and accountability. Checks and balances are essential.

Public schools in California are funded by Proposition 98. But in 1988, California's teachers included specific language to hold school districts accountable for the money they spend.

There is NO fiscal accountability provision in Proposition 1A.

Every new school bond we've placed on the ballot contains specific accountability provisions to guarantee that the money is spent the way the voters intend.

There is NO fiscal accountability provision in Proposition 1A.

Every one of California's Water, Parks, and Wildlife bonds had strict accountability provisions.

There is NO fiscal accountability provision in Proposition 1A.

California is facing serious budget challenges. There have been great sacrifices made to meet those challenges... cuts in children's health care, nursing home care, and college admissions.

Why should local politicians get a blank check? I say NO they shouldn't. Why should local politicians get a guarantee that sick children don't get? I say NO they shouldn't.

This NO fiscal accountability Proposition deserves a NO vote!

Please join me in voting NO on Proposition 1A.

CAROLE MIGDEN, *Chairwoman*
State Board of Equalization

REBUTTAL to Argument Against Proposition 1A

Contrary to misleading claims made by the opponent of 1A, **THIS MEASURE INCREASES FISCAL ACCOUNTABILITY.**

Prop. 1A increases local budget accountability by keeping tax dollars close to home, where voters have more control.

Prop. 1A will also make the State more accountable by preventing it from taking and using local government funds—except in a fiscal emergency.

FOR YEARS, **THE STATE HAS HAD A BLANK CHECK** to take your local tax dollars. **PROP. 1A TEARS UP THAT BLANK CHECK** and requires the State to live within its means.

The opponent would have you believe the State is in a better position to manage your local tax dollars than your city or county leaders. In fact, over the past decade, cities and counties have tightened their belts, increased accountability, and prioritized spending for essential local services.

Prop. 1A does NOT increase local government funding and does not take one dime from schools, state health care services, or any other state program or service.

Prop. 1A does NOT increase taxes. The measure **PROTECTS EXISTING LOCAL TAX DOLLARS—WHICH ARE USED TO PROVIDE FIREFIGHTING, LAW ENFORCEMENT, EMERGENCY ROOM CARE, PARAMEDIC RESPONSE, and other essential local services.**

Prop. 1A supporters know it's time to end business as usual in Sacramento and stop the State from taking and using local government funds.

Join Governor Schwarzenegger, firefighters, law enforcement officers, paramedics, and taxpayer groups.

PROTECT LOCAL TAXPAYERS AND PUBLIC SAFETY SERVICES. VOTE YES on 1A.

SENATOR TOM TORLAKSON, *Chair*
Senate Committee on Local Government

LOU PAULSON, *President*
California Professional Firefighters

CAM SANCHEZ, *President*
California Police Chiefs Association

Proposition 1A

This amendment proposed by Senate Constitutional Amendment 4 of the 2003–2004 Regular Session (Resolution Chapter 133, Statutes of 2004) expressly amends the California Constitution by amending sections thereof and adding a section thereto; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENTS TO ARTICLES XI, XIII, AND XIII B

First—That Section 15 of Article XI thereof is amended to read:

SEC. 15. (a) ~~All~~ From the revenues derived from taxes imposed pursuant to the Vehicle License Fee Law (Part 5 (commencing with Section 10701) of Division 2 of the Revenue and Taxation Code), or its successor, other than fees on trailer coaches and mobilehomes, over and above the costs of collection and any refunds authorized by law, those revenues derived from that portion of the vehicle license fee rate that does not exceed 0.65 percent of the market value of the vehicle shall be allocated ~~to counties and cities according to statute.~~

(b) ~~This section shall apply to those taxes imposed pursuant to that law on and after July 1 following the approval of this section by the voters, as follows:~~

(1) *An amount shall be specified in the Vehicle License Fee Law, or the successor to that law, for deposit in the State Treasury to the credit of the Local Revenue Fund established in Chapter 6 (commencing with Section 17600) of Part 5 of Division 9 of the Welfare and Institutions Code, or its successor, if any, for allocation to cities, counties, and cities and counties as otherwise provided by law.*

(2) *The balance shall be allocated to cities, counties, and cities and counties as otherwise provided by law.*

(b) *If a statute enacted by the Legislature reduces the annual vehicle license fee below 0.65 percent of the market value of a vehicle, the Legislature shall, for each fiscal year for which that reduced fee applies, provide by statute for the allocation of an additional amount of money that is equal to the decrease, resulting from the fee reduction, in the total amount of revenues that are otherwise required to be deposited and allocated under subdivision (a) for that same fiscal year. That amount shall be allocated to cities, counties, and cities and counties in the same pro rata amounts and for the same purposes as are revenues subject to subdivision (a).*

Second—That Section 25.5 is added to Article XIII thereof, to read:

SEC. 25.5. (a) *On or after November 3, 2004, the Legislature shall not enact a statute to do any of the following:*

(1) *(A) Except as otherwise provided in subparagraph (B), modify the manner in which ad valorem property tax revenues are allocated in accordance with subdivision (a) of Section 1 of Article XIII A so as to reduce for any fiscal year the percentage of the total amount of ad valorem property tax revenues in a county that is allocated among all of the local agencies in that county below the percentage of the total amount of those revenues that would be allocated among those agencies for the same fiscal year under the statutes in effect on November 3, 2004. For purposes of this subparagraph, "percentage" does not include any property tax revenues referenced in paragraph (2).*

(B) *Beginning with the 2008–09 fiscal year and except as otherwise provided in subparagraph (C), subparagraph (A) may be suspended for a fiscal year if all of the following conditions are met:*

(i) *The Governor issues a proclamation that declares that, due to a severe state fiscal hardship, the suspension of subparagraph (A) is necessary.*

(ii) *The Legislature enacts an urgency statute, pursuant to a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, that contains a suspension of subparagraph (A) for that fiscal year and does not contain any other provision.*

(iii) *No later than the effective date of the statute described in clause (ii), a statute is enacted that provides for the full repayment to local agencies of the total amount of revenue losses, including interest as provided by law, resulting from the modification of ad valorem property tax revenue allocations to local agencies. This full repayment shall be made not later than the end of the third fiscal year immediately following the fiscal year to which the modification applies.*

(C) (i) *Subparagraph (A) shall not be suspended for more than two fiscal years during any period of 10 consecutive fiscal years, which period begins with the first fiscal year for which subparagraph (A) is suspended.*

(ii) *Subparagraph (A) shall not be suspended during any fiscal year if the full repayment required by a statute enacted in accordance with clause (iii) of subparagraph (B) has not yet been completed.*

(iii) *Subparagraph (A) shall not be suspended during any fiscal year if the amount that was required to be paid to cities, counties, and cities and counties under Section 10754.11 of the Revenue and Taxation Code, as that section read on November 3, 2004, has not been paid in full prior to the effective date of the statute providing for that suspension as described in clause (ii) of subparagraph (B).*

(iv) *A suspension of subparagraph (A) shall not result in a total ad valorem property tax revenue loss to all local agencies within a county that exceeds 8 percent of the total amount of ad valorem property tax revenues that were allocated among all local agencies within that county for the fiscal year immediately preceding the fiscal year for which subparagraph (A) is suspended.*

(2) (A) *Except as otherwise provided in subparagraphs (B) and (C), restrict the authority of a city, county, or city and county to impose a tax rate under, or change the method of distributing revenues derived under, the Bradley-Burns Uniform Local Sales and Use Tax Law set forth in Part 1.5 (commencing with Section 7200) of Division 2 of the Revenue and Taxation Code, as that law read on November 3, 2004. The restriction imposed by this subparagraph also applies to the entitlement of a city, county, or city and county to the change in tax rate resulting from the end of the revenue exchange period, as defined in Section 7203.1 of the Revenue and Taxation Code as that section read on November 3, 2004.*

(B) *The Legislature may change by statute the method of distributing the revenues derived under a use tax imposed pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law to allow the State to participate in an interstate compact or to comply with federal law.*

(C) *The Legislature may authorize by statute two or more specifically identified local agencies within a county, with the approval of the governing body of each of those agencies, to enter into a contract to exchange allocations of ad valorem property tax revenues for revenues derived from a tax rate imposed under the Bradley-Burns Uniform Local Sales and Use Tax Law. The exchange under this subparagraph of revenues derived from a tax rate imposed under that law shall not require voter approval for the continued imposition of any portion of an existing tax rate from which those revenues are derived.*

(3) *Except as otherwise provided in subparagraph (C) of paragraph (2), change for any fiscal year the pro rata shares in which ad valorem property tax revenues are allocated among local agencies in a county other than pursuant to a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring.*

(4) *Extend beyond the revenue exchange period, as defined in Section 7203.1 of the Revenue and Taxation Code as that section read on November 3, 2004, the suspension of the authority, set forth in that section on that date, of a city, county, or city and county to impose a sales and use tax rate under the Bradley-Burns Uniform Local Sales and Use Tax Law.*

(5) *Reduce, during any period in which the rate authority suspension described in paragraph (4) is operative, the payments to a city, county, or city and county that are required by Section 97.68 of the Revenue and Taxation Code, as that section read on November 3, 2004.*

(6) *Restrict the authority of a local entity to impose a transactions and use tax rate in accordance with the Transactions and Use Tax Law (Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code), or change the method for distributing revenues derived under a transaction and use tax rate imposed under that law, as it read on November 3, 2004.*

(b) *For purposes of this section, the following definitions apply:*

(1) *"Ad valorem property tax revenues" means all revenues derived from the tax collected by a county under subdivision (a) of Section 1 of Article XIII A, regardless of any of this revenue being otherwise classified by statute.*

(2) *"Local agency" has the same meaning as specified in Section 95 of the Revenue and Taxation Code as that section read on November 3, 2004.*

Third—That Section 6 of Article XIII B thereof is amended to read:

SEC. 6. (a) *Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall provide a subvention of funds to reimburse such that local government for the costs of such the program or increased level of service,*

Proposition 1A (cont.)

except that the Legislature may, but need not, provide ~~such~~ a subvention of funds for the following mandates:

- (a) (1) Legislative mandates requested by the local agency affected ;
- (b) (2) Legislation defining a new crime or changing an existing definition of a crime; ~~or~~.
- (c) (3) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.
- (d) (b) (1) *Except as provided in paragraph (2), for the 2005–06 fiscal year and every subsequent fiscal year, for a mandate for which the costs of a local government claimant have been determined in a preceding fiscal year to be payable by the State pursuant to law, the Legislature shall either appropriate, in the annual Budget Act, the full payable amount that has not been previously paid, or suspend the operation of the mandate for the fiscal year for which the annual Budget Act is applicable in a manner prescribed by law.*
- (e) (2) *Payable claims for costs incurred prior to the 2004–05 fiscal year that have not been paid prior to the 2005–06 fiscal year may be paid over a term of years, as prescribed by law.*
- (f) (3) *Ad valorem property tax revenues shall not be used to reimburse a local government for the costs of a new program or higher level of service.*

(4) This subdivision applies to a mandate only as it affects a city, county, city and county, or special district.

(5) This subdivision shall not apply to a requirement to provide or recognize any procedural or substantive protection, right, benefit, or employment status of any local government employee or retiree, or of any local government employee organization, that arises from, affects, or directly relates to future, current, or past local government employment and that constitutes a mandate subject to this section.

(c) A mandated new program or higher level of service includes a transfer by the Legislature from the State to cities, counties, cities and counties, or special districts of complete or partial financial responsibility for a required program for which the State previously had complete or partial financial responsibility.

Fourth—That the people find and declare that this measure and the Taxpayers and Public Safety Protection Act, which appears as Proposition 65 on the November 2, 2004, general election ballot (hereafter Proposition 65) both relate to local government, including matters concerning tax revenues and reimbursement for the cost of state mandates, in a comprehensive and substantively conflicting manner. Because this measure is intended to be a comprehensive and competing alternative to Proposition 65, it is the intent of the people that this measure supersede in its entirety Proposition 65, if this measure and Proposition 65 both are approved and this measure receives a higher number of affirmative votes than Proposition 65. Therefore, in the event that this measure and Proposition 65 both are approved and this measure receives a higher number of affirmative votes, none of the provisions of Proposition 65 shall take effect.

Proposition 65

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure amends an article of, and adds an article to, the California Constitution; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

THE LOCAL TAXPAYERS AND PUBLIC SAFETY PROTECTION ACT

SECTION 1. Short Title

These amendments to the California Constitution shall be known and may be cited as the Local Taxpayers and Public Safety Protection Act.

SECTION 2. Findings and Purposes

(a) The people of the State of California find that restoring local control over local tax dollars is vital to insure that local tax dollars are used to provide critical local services, including, but not limited to, police, fire, emergency and trauma care, public health, libraries, criminal justice, and road and street maintenance. Reliable funding for these services is essential for the security, well-being, and quality of life of all Californians.

(b) For many years, the Legislature has taken away local tax dollars used by local governments so that the state could control those local tax dollars. In fact, the Legislature has been taking away billions of local tax dollars each year, forcing local governments to either raise local fees or taxes to maintain services, or cut back on critically needed local services.

(c) The Legislature's diversion of local tax dollars from local governments harms local governments' ability to provide such specific services as police, fire, emergency and trauma care, public health, libraries, criminal justice, and road and street maintenance.

(d) In recognition of the harm caused by diversion of local tax dollars and the importance placed on voter control of major decisions concerning government finance, and consistent with existing provisions of the California Constitution that give the people the right to vote on fiscal changes, the people of the State of California want the right to vote upon actions by the state government that take local tax dollars from local governments.

(e) The Local Taxpayers and Public Safety Protection Act is designed to insure that the people of the State of California shall have the right to approve or reject the actions of state government to take away local revenues that fund vitally needed local services.

(f) The Local Taxpayers and Public Safety Protection Act strengthens the requirement that if the state mandates local governments to implement

new or expanded programs, then the state shall reimburse local governments for the cost of those programs.

(g) The Local Taxpayers and Public Safety Protection Act does not amend or modify the School Funding Initiative, Proposition 98 (Section 8 of Article XVI of the California Constitution).

(h) Therefore, the people declare that the purposes of this act are to:

(1) Require voter approval before the Legislature removes local tax dollars from the control of local government, as described in this measure.

(2) Insure that local tax dollars are dedicated to local governments to fund local public services.

(3) Insure that the Legislature reimburses local governments when the state mandates local governments to assume more financial responsibility for new or existing programs.

(4) Prohibit the Legislature from deferring or delaying annual reimbursement to local governments for state-mandated programs.

SECTION 3. Article XIII E is added to the California Constitution, to read:

ARTICLE XIII E

LOCAL TAXPAYERS AND PUBLIC SAFETY PROTECTION ACT

SECTION 1. Statewide Voter Approval Required

(a) Approval by a majority vote of the electorate, as provided for in this section, shall be required before any act of the Legislature takes effect that removes the following funding sources, or portions thereof, from the control of any local government:

(1) Reduces, or suspends or delays the receipt of, any local government's proportionate share of the local property tax when the Legislature exercises its power to apportion the local property tax; or requires any local government to remit local property taxes to the State, a state-created fund, or, without the consent of the affected local governments, to another local government.

(2) Reduces, or delays or suspends the receipt of, the Local Government Base Year Fund to any local government, without appropriating funds to offset the reduction, delay, or suspension in an equal amount.

(3) Restricts the authority to impose, or changes the method of distributing, the local sales tax.

(4) Reduces, or suspends or delays the receipt of, the 2003 Local Government Payment Deferral.

(5) Fails to reinstate the suspended Bradley-Burns Uniform Local Sales and Use Tax rate in accordance with Section 97.68 of the Revenue

DRAFT 

HAYWARD CITY COUNCIL

RESOLUTION NO. _____

Introduced by Council Member _____

RESOLUTION IN SUPPORT OF PROPOSITION 1A

WHEREAS, state government currently seizes more than \$5.2 billion annually in local property tax funds statewide from cities, counties and special districts, costing local governments more that \$40 billion in lost revenues over the past 12 years; and

WHEREAS, these ongoing shifts and raids by the state of local property tax funds and other funding dedicated to local governments have seriously reduced resources available for local fire and paramedic response, law enforcement, public health and emergency medical care, roads, parks, libraries, transportation and other essential local services; and

WHEREAS, these funding raids also add pressure for local governments to increase fees and taxes to maintain basic local service levels; and

WHEREAS, this drain of local resources has continued even during periods when the state's budge has been overflowing with surpluses; and

WHEREAS, Proposition 1A is a historic measure that will appear on the November 2004 statewide ballot that would limit the states' ability to take and use local government funding; and

WHEREAS, by protecting local government funding, Prop 1A would protect local public safety, healthcare and other essential local services; and

WHEREAS, Prop 1A will not raise taxes and, in fact, will help reduce pressure for local fee and tax increases by limiting state raids of local government funding; and

WHEREAS. Prop 1A does not reduce funding for schools or any other state program or service, and Prop 1A was carefully written to allow flexibility in the event of a state budget emergency; and

WHEREAS, Prop 1A is supported by a bipartisan, diverse coalition including Governor Schwarzenegger, Democrat and Republican legislative leaders, local government officials, public safety representatives, healthcare, business, labor and community leaders.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Hayward that we hereby express strong support for Proposition 1A, the statewide ballot initiative that will prevent the state from further taking local government revenues.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2004

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:

MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward